

MULTIMEDIA



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STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 2, 2019 / 2020

**BFN3084 – INTERNATIONAL FINANCE**  
(All Sections/Groups)

7<sup>TH</sup> MARCH 2020  
2.30PM – 4.30PM  
(2 Hours)

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### INSTRUCTIONS TO STUDENT

1. This question paper consists of **TWO** pages (excluding cover page) with **FOUR** questions only.
2. Answer **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Write your answers and workings in the Answer Booklet provided.

**QUESTION 1 (25 MARKS)**

- (a) Cetaphil Phillips, from Washington, D. C. specializes in cross-rate arbitrage. He observes the following spot rates:

EUR 1.5888/\$  
 AUD\$1.8566 /\$  
 AUD\$1.1777/EUR

- (i) Ignoring transaction costs, does Cetaphil Phillips have an arbitrage opportunity based on these quotes? **(5 marks)**
- (ii) What steps would he take to make an arbitrage profit, and how would he profits if he has \$3,000,000 available for this purpose? **(12 marks)**
- (b)

| CURRENCY          | USD equivalent |        |
|-------------------|----------------|--------|
|                   | BID            | ASK    |
| Switzerland (CHF) | 0.7648         | 0.7652 |
| Euro (€)          | 1.4000         | 1.4200 |

- (i) What is the BID cross-exchange rate for Swiss Francs priced in euro? **(4 marks)**
- (ii) What is the ASK cross-exchange rate for Swiss Francs priced in euro? **(4 marks)**

**QUESTION 2 (25 MARKS)**

- (a) What are the **FOUR (4)** benefits of foreign direct investment (FDI)? Discuss. **(20 marks)**
- (b) Explain bimetallism and what was the ultimate goal of bimetallism? **(5 marks)**

**QUESTION 3 (25 MARKS)**

- (a) Redwin Cream, an American decided to invest \$2,000,000 for six months. The six-month interest rate is 8 percent per annum in the United States and 10 percent per annum in Canada. Currently, the spot exchange rate is CAD1.30 per dollar and the six-month forward exchange rate is CAD1.31 per dollar. What is the interest rate parity and how could Redwin maximize his return? **(15 marks)**
- (b) Describe zero coupon bond and straight fixed-rate bond. **(10 marks)**

**Continued...**

**QUESTION 4 (25 MARKS)**

Swan Grey Corporation, located in United Kingdom has translated its financial accounts into U.S. dollars. The table below presents the balance sheet in pound sterling. The historical exchange rate is \$4.00/£1.00 and the spot rate is \$3.00/£1.00. Fill up the missing entries that translate the balance sheet below. Please write the answer in your answer booklet.

| Balance Sheet                        | Local Currency | Current / Noncurrent | Monetary / Nonmonetary | Current Rate |
|--------------------------------------|----------------|----------------------|------------------------|--------------|
| Cash                                 | £5,000         |                      | 15,000                 |              |
| Inventory (Current Value = £4000)    | £10,000        |                      |                        |              |
| Net Fixed Assets                     | £5,000         |                      |                        |              |
| Total Assets                         | £20,000        |                      |                        |              |
| Current Liabilities                  | £3,000         | 9,000                |                        |              |
| Long-Term Debt                       | £6,000         |                      |                        |              |
| Common Stock                         | £10,000        |                      |                        |              |
| Retained Earnings                    | £ 1,000        |                      |                        | (5,000)      |
| Cumulative Transfer Adjustment (CTA) |                |                      |                        |              |
| Total Liability & Equity             | £20,000        |                      |                        |              |

**(25 marks)****End of Page**